

“A Walk through History: Megatrends and their Impact on U.S. Foreign Policy”

This afternoon, I would like to share with you, from a very personal perspective as a businessman and diplomat for the past 32 years, how I have seen U.S Foreign Policy evolve in response to a number of what I would call “global trends” that have redefined the parameters of diplomacy. I will draw on personal experiences and anecdotes, rather than intellectual discourse; to illuminate the road we have travelled in the past few years in redefining the tools of diplomacy -- and how we are now using those various tools to address increasingly global challenges.

1. Information Technology

Of all the trends I have experienced, I would say none has had a more powerful and universal impact than advances in telecommunications and, more recently, social media. Access to information and technology has revolutionized the way we do business. The speed of both information flows, and the need to react more rapidly to breaking events, has forced innovation and catalyzed political, economic, and social reforms. It has also dramatically increased awareness and accountability, driven especially by young people empowered by new communication technologies. All governments, even authoritarian regimes, are learning that they cannot ignore the needs and aspirations of their citizens. As we have seen in the Middle East and North Africa, this has had profound implications for regional and global stability.

- **What are cables anyway?** *I recall a few years ago I was at a cocktail party for new recruits into the U.S. diplomatic service. Next to me I heard two fresh Foreign Service officers talking. The one asked the other, “One thing I just don’t understand, the people for State Department keep talking about cables... what are cables anyway.” The other one replied, “Don’t worry, that’s just what old people call e-mail!” For those of you not familiar with diplomatic discourse, in the “old days” cables were the way Embassies communicated information back to Washington and were written with great care and attention to intellectual content and style. In today’s linked up, virtual environment, we have to compete with CNN and the blogosphere.*
- **Empowerment of Indian farmers.** *I saw another example of the changing times in India where I did a lot of work on agricultural market reform. One barrier to growth in this sector was the large state-run monopoly that governed inter-state trade in essential food commodities, put in place to promote food security. Over the years, this structure became bloated and inefficient at the expense of rural farmers. An Indian company wanting to promote private sector participation decided to raise awareness among rural farmers of how they were being disadvantaged by state enterprises and set up remote solar-power internet kiosks in rural areas to enable farmers to see the prices in various markets. This almost immediately led to riots and attacks of state owned procurement office. While many of these farmers were illiterate, the simple availability of price information unleashed pressure that within a year led to the reform of India’s agricultural sector and the removal of the “Essential Commodities Act” to enable private markets to develop.*

Political and technological changes are allowing huge numbers of people around the world to influence events as never before. Emerging economic powers, non-state actors such as corporations and cartels, and virtual advocacy groups are reshaping the international landscape. The geometry of global power is becoming more diffuse as the challenges we face become more complex and cross-

cutting. That means that building coalitions for common action is becoming both more complicated and more crucial.

As a result of these changes, we are exploring new ways to reach beyond traditional government-to-government relations and engage directly with people around the world. That means using technologies such as Twitter and SMS to open dialogues with everyone from civil society advocates in Russia, to farmers in Kenya, to students in Colombia. But it also means advancing a comprehensive agenda to support effective democratic transitions in places such as Tunisia, Egypt, Libya and Syria -- championing the universal rights of people everywhere. In today's world, this is a hallmark of American leadership and a strategic imperative.

2. Demographic Shifts

As mortality rates around the world have fallen, especially among children, the world is getting younger. Over half of the population of the world is now under the age of 30. In India and Kenya, two countries where I have worked recently, two-thirds of the population are under the age of 30. America may be the world's oldest democracy, but India is the youngest! The predominant number of global youth continues to live in rural areas and work in subsistence agriculture, but unlike in the past, they now have access to information and are linked up with the outside world. Women have moved to the forefront and are now exerting a much more powerful role than ever before.

The flip side of the coin is that the population of many industrialized countries is aging. This development, which is already taking place in several European Union member states, will put stress on social welfare and health systems, as well as government budgets. It will also increase the importance of the current debate on immigration and integration.

- **Indian elections in 2004: a demographic revolution** *I experienced a profound example of this demographic shift in 2004 during the Indian national elections. The ruling BJP party held power and had built substantial support beginning a few years earlier by turning their attention to economic reform and growth. In 2003, India recorded the highest growth rate in its history 9.9% in later 2004. The BJP decided to call early elections to mount an "India Shining" campaign appealing to a rapidly increasing urban middle class. Riding a swell of economic prosperity and the best monsoon in decades, all the polls predicted a landslide BJP victory. Meanwhile, Sonia Gandhi and the Congress party mounted a campaign in the vernacular aimed at the underbelly of Indian society – youth, women, and the rural poor. In a huge election surprise, the Congress was thrust back into power by the demographic majority for whom India was definitely NOT shining.*

What I take away from this is the fact that demographics are playing a much more important role in politics than ever before and politicians are being forced to pay much greater attention to three groups: youth, women, and the rural poor. The world's more enlightened political leaders realize that failure to deliver economic and social benefits to these groups will have dire consequences, not only in terms of political stability, but also their ability to maintain power. In particular, empowering women

and girls around the world is crucial to seizing long-term opportunities for promoting peace, democracy and sustainable development.

Indeed, from the perspective of the poor, one must also look around the world to reflect on the consequences of disease, hunger, and illiteracy.

- **East Africa Drought** *I served most recently in Kenya where I witnessed the worst drought the world has seen in 60 years – with the worst effects in Somalia, where extremist groups had virtually stopped development. One must ask oneself, what are the consequences of poverty and hunger? Well, there are only really three. People can migrate, as we saw with the huge refugee flows into Kenya -- in which case you have a refugee crisis. People can revolt -- in which case you have a political crisis. Or people, tragically, can die of hunger -- in which case you have a humanitarian crisis.*

Well, needless to say, all three of these scenarios exert a very negative effect on stability and growth prospects for prosperity in a region – Africa – with the largest unexploited middle class and youth population in the world. Following in the tracks of China and India, Africa now enjoys an emerging middle class of about 300 million among a population of over a billion. This market can only develop if pockets of instability are dealt with in a way that safeguards against protracted crisis and extremism and safeguards the interests of youth, women, and the rural poor.

In the U.S. we've made expanding opportunities for youth, women and the rural poor a cornerstone of America's foreign policy. We've launched ambitious efforts to increase women's participation in the economy by opening access to credit and markets, to enhance the role of women in resolving conflicts and maintaining security, and to focus global health and food security programs on the needs of mothers and children, who are linchpins of entire communities.

President Obama has introduced several new global presidential initiatives, specifically on Global Hunger, Health and Climate Change, to help build the enduring partnerships between various agencies of the U.S. government acting collectively, and bilateral, multilateral and non-government partners. I am happy to give anyone who is interested the web sites to find out more about these global initiatives.

Global Hunger and Food Security Initiative – Feed the Future: www.feedthefuture.gov

Global Health Initiative: www.ghi.gov

Global Climate Change Initiative: www.whitehouse.gov/sites/default/files/Climate_Fact_Sheet.pdf
www.usaid.gov/climate

3. Market Integration and the end of the Cold War

During the past 30 years, we have seen remarkable progress in opening up new trade and investment opportunities all around the world through several rounds of global trade talks and efforts to reduce

investment barriers and harmonize regulatory environments. More and more countries have recognized the need to catalyze growth by building stronger economic relationships and partnerships.

- **Nothing worse...** *I recall my very first assignment overseas in Kenya in 1981, as an intern at the Embassy in Nairobi. At this time, the talk was all about exploitation by multinational corporations, as many new countries were emerging from a colonial experience that left them with weak regulatory environments and lack of governance capacity. The Cold War and bipolar geo-strategic power struggles provided the backdrop for pursuit of markets and resources. I was assigned as "control officer" for a large U.S. business delegation. The first meeting was with the Minister of Economic Planning. The Minister's very first words: "I want to make one thing perfectly clear from the start, to my mind there is only one thing worse than being exploited by a multi-national corporation." Someone in the delegation muttered, "and what is that?" The Minister responded passionately, "NOT being exploited by a multinational corporation."*
- **Socialist Stock markets** *I look back on a series of meetings I organized around this time in China, between U.S. financial market experts and the Chinese Central Bank to talk about how to set up China's first "socialist" stock exchange – an oxymoron at best. The pilot opened in Shenzhen in 1989 as a "renegade exchange" – until Deng Xiao Ping came to southern China in 1992 to proclaim the pilot a "success." The bottom line – China needed stock markets to grow and deliver economic benefits, in order to maintain political stability.*

Companies have also begun to take a longer term view. Access to new markets like China and India required corporations to engage in joint-ventures – often state owned entities -- that had objectives beyond profit-maximization.

- **New forms of Joint Ventures** *In 1990, I recall escorting Chinese Premier Li Peng to visit the first plant built by a major U.S. manufacturer in China to service Chinese consumers. The company had agreed to a joint venture with a Chinese state-owned company. Li Peng arrived at the plant in a sour mood – certainly not a strong supporter of supreme leader Deng Xiao Ping's "reform and opening up" strategy. After spending 20 minutes with the U.S. company's top corporate leaders, Li Peng practically leapt onto the stage and enthusiastically proclaimed the pilot plant a huge success. I turned to the U.S. General Manager and asked, "What the Hell did our guys tell him anyway?" His response, "We simply told him we are now the largest tax payer in China." The company, on the other hand, faced strong criticism from shareholders, as did Nike and other companies a few years later, for exporting jobs and exploiting cheap labor. It became common practice for companies to adopt codes of conduct to manage these perceptions.*

Well, this perception among developing country leaders of the necessity of trade and investment ushered in a much more pragmatic business-government dialogue. A number of progressive leaders, most notably in the Asian "four tigers," stepped up efforts to woo foreign investment, as the

handmaiden to growth, while building regulatory and institutional structures to strengthen the state -- something akin to a new "social compact" among business and government.

There has been a growing recognition among leaders in reform-minded countries that it is in their own interest to help those who have been historically excluded to become full participants in the economic and political lives of their countries.

In 1982 out of 166 countries 52 were generally considered to be "free", representing 31% of the world population. In 2012 out of 195 countries, 90 are considered to be "free," representing 46% of the global population. Those considered "not free" represented 35% of the global population in 1982 and 24% in 2012. The rest were somewhere in between.

4. Corporate Responsibility

A number of dynamic political-economic changes have taken place that have also reshaped the way corporations do business.

- ☐ Institutions of civil society have gained strength and global influence.
- ☐ Regional and multilateral institutions have also gained importance as facilitators of codes of conduct and new regulatory frameworks.
- ☐ The public and shareholders have increased pressure on corporate boards of directors to behave responsibly – and with that the legal construct of "limited liability" began to give way to broader concepts of public-private partnerships.
- ☐ Competing models of capitalism have emerged, creating a narrower spectrum of ideologies driven by varying degrees of market orientation – what Francis Fukuyama has described as "the end of history." Most notably China and India, recognized the political consequences of poverty and have begun to open their markets and court foreign investors.

Concurrently, the number and scope of philanthropic organizations and development think tanks has expanded, functioning as incubators for long-term strategies, and as consultants to foreign partners that needed to better understand western business practices in order to strengthen their bargaining position – unfortunately, often to the detriment of the common man.

Looking forward, I would venture to say that the best examples of corporate responsibility I have experienced are those that were based on partnerships – as part of a two-way or multilateral discussion. Those that I would characterize as paternalistic and one-way in nature have not as a whole been as successful nor as enduring – nor have the accomplishments been as sustainable. In the past ten years or so, I have seen some very exciting new models of corporate responsibility emerge in which both sides benefit.

So, has the rise of corporate responsibility occurred because corporations became more altruistic? Probably not. Corporations, at least the ones with historical perspective and vision, recognized a new

rule called TINA – there is no alternative! Global business success also meant global business responsibility.

- **The End of Apartheid** *I very clearly recall a series of meetings in South Africa during the apartheid era when Anglo-American strategic director Bobby Godsell and a small cadre of "captains of industry" used exactly this term -- TINA --to convince business leaders in South Africa that one-man, one-vote was the only way to go, and that they needed to reconcile with the ANC. A short time later, South Africa's National party decided to release Nelson Mandela from prison, in large measure under pressure from South African business interests who, in turn, were coming under increasing pressure from anti-apartheid groups internationally, as well as their own governments and shareholders. Did they experience an epiphany? No. They recognized their own long-term enlightened self interest in embracing the sweep of global change.*

Again, TINA – there is no alternative.

5. The Rise of the BRICS

As a consequence of the above and other factors, we have seen countries such as China, India and Brazil gaining influence, less because of the size of their armies than because of the growth of their economies and the predominance of youth. We have learned that our national security today depends on decisions made not just in diplomatic negotiations and on the battlefield, but also in the financial markets and on factory floors. So the U.S. has made it a priority to harness more effectively the tools of global economics to advance our strategic aims abroad.

The international system based on these megatrends I have outlined has helped fuel, not foil, the rise of emerging powers such as the BRICS. As a consequence, they have a stake in the success of that system. And as their power and capacity grow, they will rightly face increasing expectations – from the world to shoulder a share of common challenges abroad and from their own people to solve problems at home.

New powers are playing a greater role on the world stage. Today, the great powers are at peace, but we face different challenges – from the financial crisis and growing income inequality to climate change, nuclear proliferation and international terrorism – that spill across borders and defy unilateral solutions.

Still, amidst all this change, two constants remain. First, as the world becomes ever more interconnected and interdependent, a just, open and sustainable international order is required to promote global peace and prosperity. And second, that order remains overly dependent on American economic, military and diplomatic leadership, which has underwritten global peace and prosperity for decades. Institutional reform is needed among many organizations constructed after WWII to better reflect today's global challenges and catalyze the formation of broader and more dynamic multilateral and regional partnerships.

6. New Concepts of Security – the "3Ds"

The United States is leading in new ways that fit a new time – a time of complex challenges and scarce resources. In the aftermath of 9/11, we have redefined our concept of national security to include a more robust economic and social dimension.

- **One D is not Enough** *While I was in Kenya, I was very pleased to pilot a number of new initiatives aimed at fostering long-term stability by addressing some of the root causes of social instability and potential extremism: hunger, health, education, and climate change. We piloted some very innovative public-private partnerships including foundations, NGO's, regional and multilateral organizations, and civil-military operations under three Presidential Initiatives: The "Feed the Future" program, the "Global Health Initiative" and the Global Climate Change Initiative. Each of these programs integrated the work of State Department (the Diplomacy "D"), the U.S. Agency for International Development (the Development "D"), and the Department of Defense (the Defense "D"). One example was our assistance to the Kenyan military in creating a Kenyan civil engineering capacity, drawing on the U.S. Corps of Civil Engineer's model, to assist in rural development and disaster relief. In Austria I am sure you can all relate to this as it is a major element of your own military capacity.*

For the U.S., our historical alliances in Europe and East Asia remain the bedrock of our global leadership. Yet, as strong as our historical alliances are, we also recognize the need to work with new partners. Because new regional and global centers of influence are quickly emerging – and not just India and China -- but also countries such as Turkey, Mexico, Brazil, Indonesia and South Africa, as well as Russia. Some of these are democracies that share many of our core values; others have very different political systems and perspectives. Aligning our interests isn't always easy – we're seeing just how difficult it can be on Syria.

We have seen the value of engaging not just bilaterally, but in multilateral settings such as the United Nations, The Organization for Security and Cooperation in Europe, the G20, and even the International Criminal Court, where norms can be shaped and shared. For the U.S., working with these new players in the years ahead is a top priority – indeed a necessity -- encouraging them to accept the responsibility that comes with influence and ensuring their full integration into the international order is a critical test for our diplomacy.

Our aim is to embed expanding bilateral relationships in a robust international order: to strengthen and mature effective regional and global institutions that can mobilize common action and settle disputes peacefully; to build consensus around rules and norms that help manage relations between peoples, markets and nations; and to establish security arrangements that provide stability and build trust.

Conclusion

For this to succeed, we have to work together with emerging powers to renovate the global architecture to reflect better the dynamics of today's world. For example, we are pulling together new groups of nations to work on specific issues, as in the Global Counterterrorism Forum that we

launched last September, or our new Climate and Clean Air Coalition, which is targeting the short-lived pollutants that account for up to 30 per cent of global warming. We recognize that some international rules and institutions designed for an earlier age have to be rethought and reconfigured.

But as we do this, there are universal principles that underpin the international order and must be defended: fundamental freedoms and universal human rights; an open, free, transparent and fair economic system; the peaceful resolution of disputes; and respect for the territorial integrity of states. These are norms that benefit everyone and that help all people and nations live and trade in peace.

Continuing difficulties in the euro zone are a reminder that effective regional co-ordination and integration is no simple challenge. However, Europe's experience also shows the benefits this approach can bring. A continent driven for centuries by conflict and divisions has managed to achieve unprecedented peace and prosperity by opening its borders, integrating its economies and co-ordinating its policies. This historic project is not complete, and in these difficult days it is essential to keep working towards a Europe that is whole, free, democratic and at peace.

All of these strategies to address the rise of new powers and the demands of a shifting international landscape reflect a fundamental lesson about what it takes to lead and to solve problems in today's complex world. It is no longer enough to be strong. Great powers also have to be savvy and persuasive. The test of our leadership going forward will be our ability to mobilize disparate people and nations to work together to solve common problems and advance shared values and aspirations. To do that, we need to expand our foreign policy toolbox, integrate every asset and partner, and fundamentally change the way we do business. We call this approach smart power.